REVISITING

ECONOMICS

AS A SOCIAL SCIENCE

CHAPTER 1

OBJECTIVES

At the end of this chapter, the learners will be able to:

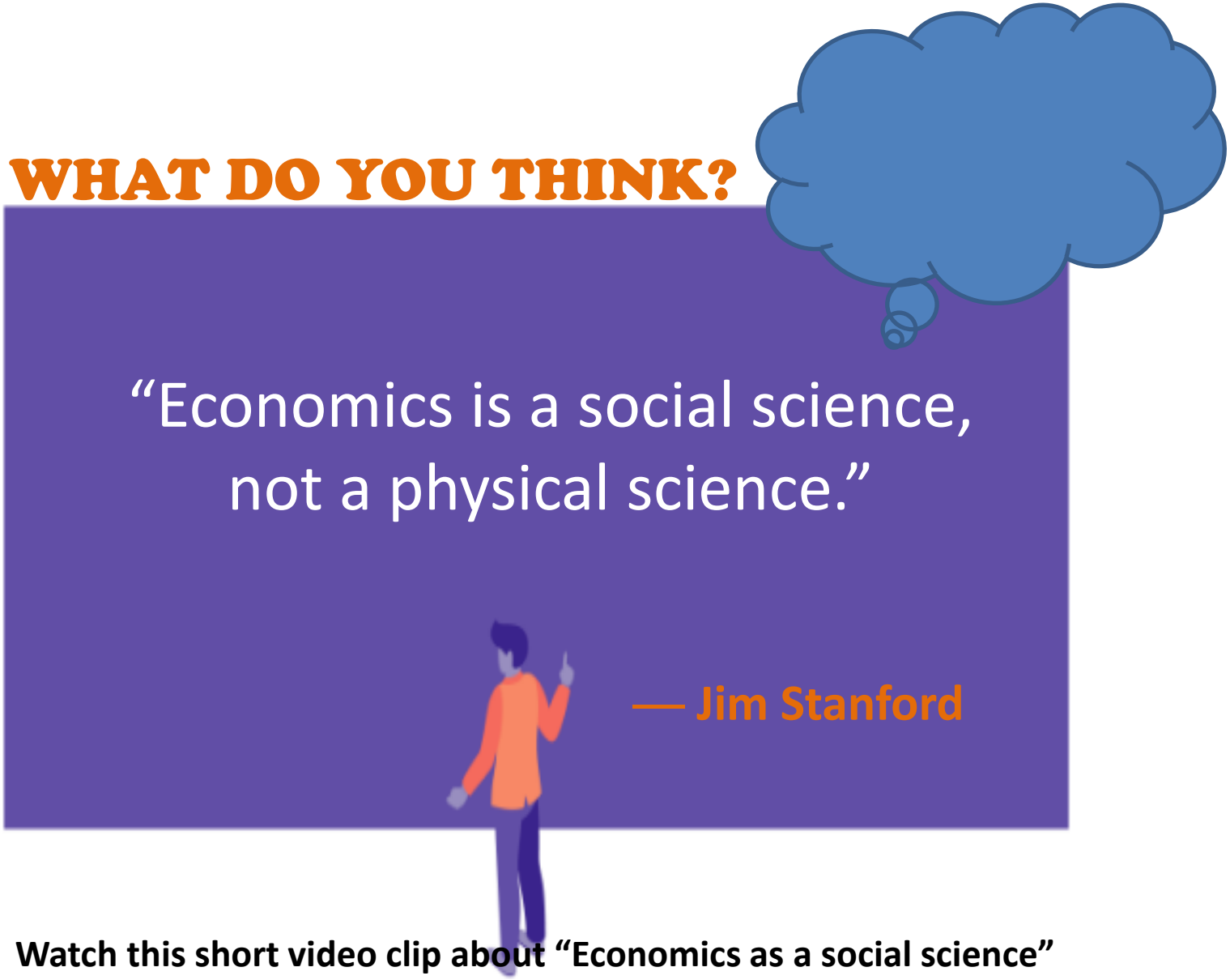
1. State the definition of economics;
2. Compare normative and positive economics;
3. Differentiate between macroeconomics and microeconomics;
4. Explain the meaning of goods and services; and
5. Elaborate on the importance of the factors of production.

Learning Competencies:

At the end of this chapter, the learners will be able to:

1. define basic terms in applied economics;
2. identify the basic economic problems of the country;
3. explain how applied economics can be used to solve economic problems;

WHAT DO YOU THINK?



Watch this short video clip about "Economics as a social science"

https://www.youtube.com/watch?v=BGoEF4NRh_Q

WHAT ARE YOUR THOUGHTS ABOUT THE PICTURES?

WHAT IS ECONOMICS?

Economics is the study of human efforts to satisfy what appears to be unlimited and competing wants through the careful use of relatively scarce resources.

Economics as a Social Science

It deals with the behavior of people as they cope with the fundamental problem of scarcity.

No scientific experiments!

Using real-life scenarios to build models that are used to make assumptions.

UNDERSTANDING NORMATIVE AND POSITIVE ECONOMICS

Compare these two statements:

The country's unemployment rate is 5.1 percent.

The present unemployment rate should be lower.

POSITIVE ECONOMIC STATEMENT

- realities that can be proved or disproved, supported, or rejected by reference to facts.
- must be subject to verification or reputation by reference to the facts.

NORMATIVE ECONOMIC STATEMENT

- represents an opinion
- cannot be approved or disproved, nor shown to be true or false by reference to facts.

MAJOR DIVISIONS OF ECONOMICS

MICROECONOMICS

- Greek prefix “mikro” which means small.
- Studies the economic behavior of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms.

EXAMPLES:
Individual market and individual consumer behavior

What are the key objectives of macroeconomic policy?
CPI
Consumer Price Index
Price Stability – i.e. Low Positive Inflation (CPI Inflation of 2%)
GDP
A Sustainable Growth of Real GDP (National Output)
UNEMPLOYED
Falling Unemployment / Rising Employment Rate
Higher Average Living Standards (national income per capita)
EXPORT
Improved Global Competitiveness / Trade Balance (BoP)
income capitalism economic growth economic distribution of wealth rich poor inequality expectancy economic policy government corruption
A More Equitable Distribution of Income and Wealth

MACROECONOMICS

- Greek prefix “makro” which means large.
- Studies the performance of the economy as a whole.
- Deals with economy-wide sum such as total production.

EXAMPLES:
Monetary policy, economic growth, inflation, unemployment, and government borrowing.

UNDERSTANDING NEEDS AND WANTS

- Need is a basic requirement for survival.
- These are physiological needs, safety needs, love and belonging, esteem needs, and self-actualization needs.

On the other hand,

- A want is something that is desired.
- It is a means of expressing a need. Food, for example, is a basic need related to survival. To satisfy this need, a person may “want” a pizza, hamburger, or other food.

UNDERSTANDING ECONOMIC PRODUCTS

GOODS

- Good is a tangible commodity.

Consumer Good - intended for final use by individuals.
Ex: food, appliances, clothing, and automobiles.
Capital Good – a manufactured good used to produce other goods and services.
Ex: machinery and tools.
Durable Good – any good that lasts three years or more when it is used on a regular basis.
Ex: furnitures, cars, consumer electronics.
Public Good – provided for public use.
Ex: public museums and libraries.

SERVICES

- Service is a work that is performed for someone.
- It is something that cannot be touched or felt.
- Services include haircuts, home repairs, and forms of entertainments.

FACTORS OF PRODUCTION

CLAYTON (1995) STATES THAT THE FOUR FACTORS OF PRODUCTION PROVIDE THE MEANS FOR SOCIETY TO PRODUCE AND DISTRIBUTE ITS GOOD AND SERVICES.

LAND — Refers to the "gift of nature", or natural resources not created by human effort.

CAPITAL — Include the tools, equipment, and factories used in the production of goods and services.

LABOR — Refers to all people with all their efforts, abilities, and skills except for a unique group of individuals, called entrepreneurs.

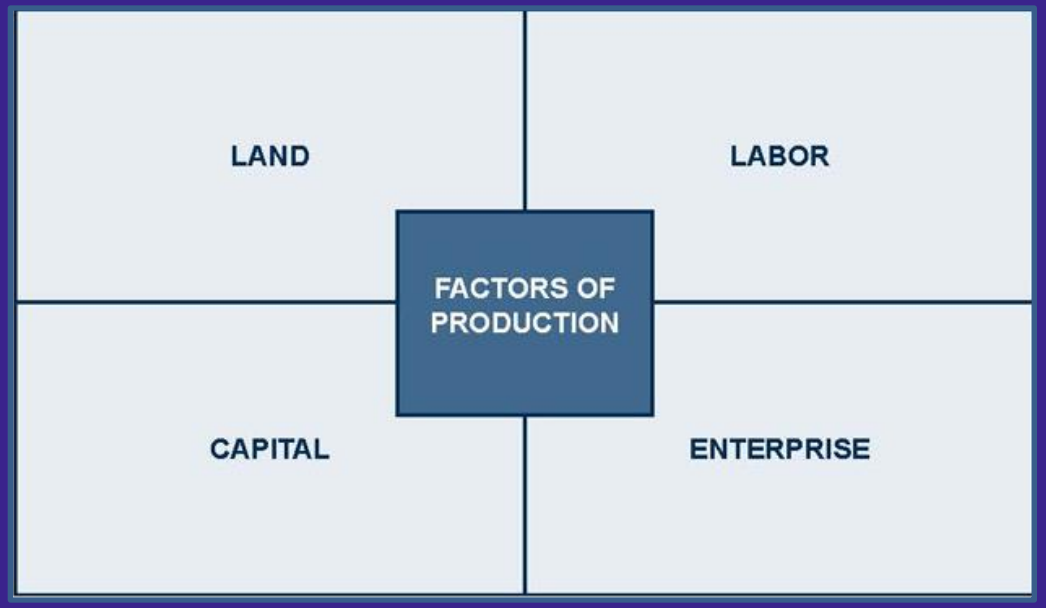
ENTREPRENEURS — Refers to innovators responsible for much of the change in the economy. They are risk-taker in search of profits.

1. Land

2. Labour

3. Capital

4. Entrepreneur



The four factors of production are interconnected in many ways.

Remember, goods and services are scarce because the factors of production used to produce them are scarce. In case you have forgotten, scarcity is described as limited quantities of resources to meet unlimited wants. Consider a pair of denim blue jeans. The denim is made of cotton, grown on the land. The land and water used to grow the cotton is limited and could have been used to grow a variety of different crops. The workers who cut and sewed the denim in the factory are limited labor resources who could have been producing other goods or services in the economy. The machines and the factory used to produce the jeans are limited capital resources that could have been used to produce other goods. This scarcity of resources means that producing some goods and services leaves other goods and services unproduced.

THREE BASIC ECONOMIC QUESTIONS

WHAT TO PRODUCE?

- ✓ IS THE FIRST QUESTION SHOULD A SOCIETY DEVOTE MOST OF ITS RESOURCES TO PRODUCING MILITARY EQUIPMENT OR THE OTHER ITEMS SUCH AS FOOD, CLOTHING, OR HOUSING.

HOW TO PRODUCE?

- ✓ IS THE SECOND QUESTION SHOULD A FACTORY OWNER USE ASSEMBLY-LINE METHODS THAT REQUIRE LITTLE LABOR, OR SHOULD THEY USE LESS EQUIPMENT AND MORE WORKERS? IF AN AREA HAS MANY UNEMPLOYED PEOPLE, THE SECOND METHOD MIGHT BE BETTER. ON THE OTHER HAND, ASSEMBLY LINE METHOD IN COUNTRIES WHERE CAPITAL IS WIDELY AVAILABLE USUALLY HAVE LOWER PRODUCTION COSTS. LOWER COSTS MAKE MANY LESS EXPENSIVE MANUFACTURED ITEMS AND THEREFORE, AVAILABLE TO MORE PEOPLE.

FOR WHOM TO PRODUCE?

- ✓ IS THE THIRD QUESTION. AFTER SOCIETY DECIDES WHAT TO PRODUCE AND HOW TO PRODUCE THEM, THE ITEMS PRODUCED MUST BE ALLOCATED TO SOMEONE.

THANK YOU FOR LISTENING!